

## Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 01728 01 OF 02 031823Z

43

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 GSA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FEAЕ-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01

PRS-01 /094 W

----- 030205

R 031808Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8690

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 01728

E.O. 11652: N/A

TAGS: EMIN, ETRD

SUBJECT: COPPER -- OWNERSHIP OF LME STOCKS

REF: (A) LONDON 133; (B) STATE 531

1. LONDON METAL EXCHANGE (LME) WAREHOUSES (WAREHOUSES IN THE UK AND ON THE CONTINENT APPROVED BY THE LME FOR HOLDING METAL TRADED) REPORTEDLY NOW HOLD MORE THAN 500,000 TONS OF COPPER METAL VALUED AT ROUGHLY 300 MILLION POUNDS STERLING. THIS IS APPROXIMATELY ONE-THIRD OF THE WORLD'S SURPLUS. IN RESPONSE TO REF (B), THIS CABLE PROVIDES THE EMBASSY'S BEST ESTIMATE OF THE OWNERSHIP OF THESE STOCKS, BASED ON A NUMBER OF CONVERSATIONS WITH LME SOURCES. AT BEST, THE ESTIMATES ARE NOTIONAL, SINCE, AS ON ANY COMMODITY MARKET, OWNERSHIP CONSTANTLY SHIFTS. MOREOVER, NO ATTEMPT AT CENTRALIZED RECORD KEEPING IS MADE BY THE LME OR THE BRITISH GOVERNMENT.

2. FOR THE PURPOSE OF ANALYSIS, OWNERSHIP MAY BE DI-LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 01728 01 OF 02 031823Z

VIDED INTO THREE MAJOR GROUPS:

(A) THAT HELD BY COPPER MERCHANTS (LME BROKERS) --  
ABOUT 15 PERCENT, PROBABLY LARGELY BANK FINANCED  
(B) PRODUCER/CONSUMER COPPER -- SOME 60 PERCENT, ALSO  
HEAVILY FINANCED BY BANKS  
(C) INVESTOR-SPECULATORS -- ABOUT 25 PERCENT. IN  
CONTRAST TO THE FIRST TWO GROUPS, THIS GROUP  
HAS LITTLE CONNECTION WITH THE INDUSTRY AS SUCH.  
IT CONSISTS OF INDIVIDUALS AND INSTITUTIONS WHO  
HOLD PHYSICAL COPPER FOR SPECULATION OR LONG-  
TERM CAPITAL GAIN.

3. OF THE THREE GROUPS, THE FIRST TWO ARE ESSENTIALLY  
THE SAME. ALTHOUGH WARRENTS FOR THE COPPER THEY ORI-  
GINALLY POSSESSED MAY HAVE PASSED TO LONDON MERCHANT  
BANKS IN THE SHORT-TERM, A SIMILAR AMOUNT OF METAL  
IS NONETHELESS COMMITTED TO THEM VIA THE FUTURES ME-  
CHANISM. THE RESULT IS THAT THESE TWO GROUPS HAVE NOT  
RELINQUISHED THEIR CLAIMS TO METAL AT SOME TIME IN THE  
FUTURE. LITTLE IS KNOWN ABOUT THE THIRD GROUP, AND  
LME MEMBERS FEAR THAT THIS GROUP COULD PROVE QUITE  
VOLATILE. POTENTIALLY, IT COULD HAVE A SERIOUS DE-  
STABILIZING EFFECT ON THE MARKET.

4. AS NOTED ABOVE, MUCH OF THE COPPER IN THE WAREHOUSES  
IS BENEFICIALLY OWNED BY BANKS. BANKS BUY METAL AT THE  
CASH (OR SPOT) PRICE ON THE LME AND SIMULTANEOUSLY  
SELL IT BACK FOR FUTURE DELIVERY. A BANK TRADING IN  
THIS FASHION IS ASSURED A SPECIFIED EARNING THROUGH  
THE "CONTANGO", THE AMOUNT BY WHICH THE FUTURES PRICE  
-- CONTRACTS ARE FOR THREE MONTHS OR LESS -- IS  
ABOVE THE PRESENT PRICE. AT THE SAME TIME, THOSE MOST  
DIRECTLY CONCERNED WITH PRODUCTION, COMMERCIALIZATION  
AND PROCESSING OF COPPER HAVE COVERED THEMSELVES BY  
FUTURES PURCHASE CONTRACTS. THIS APPEARS TO BE A  
RELATIVELY SIMPLE AND SAFE FINANCING PROCEDURE, BUT OF  
COURSE IT IS Viable ONLY UNDER A SET OF FAIRLY  
LIMITED CONDITIONS. CLEARLY, SHOULD THE CONTANGO BE-  
COME TOO WIDE OR TOO NARROW THIS PARTICULAR FINANCING  
METHOD WOULD LOSE ITS ATTRACTIVENESS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 01728 01 OF 02 031823Z

5. THIS SYSTEM HAS BEEN WELL SUITED TO THE NEEDS OF  
BOTH PRODUCERS AND CONSUMERS. UNDER PRESENT WORLD  
MARKET CONDITIONS, PRICES ARE CONSIDERED LOW, BUT PROS-  
PECTS ARE THAT TODAY'S GLUT WILL DISAPPEAR NOW THAT  
THE WORLD RECESSION SEEMS TO BE BOTTOMING OUT. EARLY  
RECOVERY IN THE UNITED STATES, OF COURSE, IS PARTICU-  
LARLY IMPORTANT. IN THE INTERIM, HOWEVER, BOTH PRO-  
DUCERS AND CONSUMERS HAVE FELT IT NECESSARY TO INCREASE

LIQUIDITY, WHILE KEEPING A CLAIM OPEN FOR METAL IN THE FUTURE. TYPICALLY, CONTRACTS HAVE BEEN ROLLED OVER BY A PROCESS KNOWN AS "LENDING" (SELLING OUT A MATURING CONTRACT AND SIMULTANEOUSLY BUYING A NEW ONE). THROUGH THIS PROCESS, COPPER FABRICATORS HAVE BEEN ABLE TO KEEP INVENTORIES DOWN TO A BARE MINIMUM. PRODUCERS AS WELL, WHO OTHERWISE WOULD HAVE HAD TO FOREGO EXCHANGE EARNINGS, HAVE BEEN ABLE TO MAINTAIN A HIGHER

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 01728 02 OF 02 031818Z

43

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FEAЕ-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

GSA-01 /094 W

----- 030123

R 031808Z FEB 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8691

LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 01728

THAN OTHERWISE LEVEL OF EXPORTS.

6. THE COST TO COPPER FABRICATORS IS PROBABLY MINIMAL. THEY SACRIFICE CONTANGO EARNINGS, BUT THE COST OF A COPPER-SECURED LOAN WOULD PROBABLY BE HIGHER. ON THE OTHER HAND, IT HAS BEEN ARGUED THAT PRODUCERS WOULD HAVE BEEN BETTER OFF TO LEAVE THEIR COPPER IN THE GROUND UNTIL THE COMBINATION OF SHORT SUPPLY AND RISING DEMAND SHOULD RESULT IN A GENUINE BULL MARKET. TO A LIMITED

EXTENT, THIS IS WHAT CIPEC HAS BEEN ADVOCATING; HOWEVER, THE SCOPE FOR SUCH A POLICY, OF COURSE, IS LIMITED BY PRESENT FOREIGN EXCHANGE NEEDS OF THE PRODUCING COUNTRIES. MOREOVER, THE EFFICACY OF ANY EXPORT CONTROL SYSTEM WOULD SEEM QUESTIONABLE SO LONG AS THE LME Warehouses ARE BULGING WITH COPPER, NOT TO MENTION LONG-TERM DELETERIOUS EFFECTS ON THE INDUSTRY AS A WHOLE.

7. ALL IN ALL, THE LME AND ITS WAREHOUSE SYSTEM UNTIL NOW SEEM TO HAVE HAD A MODERATING INFLUENCE ON THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 01728 02 OF 02 031818Z

MARKET. HAD THERE BEEN NO SUCH MECHANISM IN PLACE, PRODUCERS MIGHT WELL HAVE BEEN FACED WITH A DISASTROUS MARKET RATHER THAN A MODERATE-WEAK ONE. THE SYSTEM, IN SHORT, HAS OPERATED MUCH AS A GIGANTIC, BANK-FINANCED BUFFER STOCK, SUPPORTING PRICES (SO LONG AS CONFIDENCE REMAINED THAT COPPER'S DECLINE WAS ONLY TEMPORARY). THE OVERHANG EFFECT OF 500,000 TONS OF COPPER SHOULD HAVE A MODERATING INFLUENCE ON THE OTHER SIDE AS WELL WHEN DEMAND BEGINS TO PICK UP.

8. AS A FINAL NOTE, OBVIOUSLY, THIS CABLE ONLY SCRATCHES THE SURFACE OF A COMPLEX PROBLEM. POINTS NOT ADDRESSED INCLUDE THE STABILITY OF THE SYSTEM -- HOW MUCH LONGER CAN SUCH STOCK PILING GO ON IF AN UPTURN IN DEMAND IS DELAYED, WHO ARE THE LOSERS, AND TO WHAT EXTENT SHOULD THE LME BE TAKEN INTO ACCOUNT IN DEVELOPING WORLD COPPER POLICY.

SPIERS

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** COPPER, REPORTS, STOCKS (SECURITIES), STOCKPILES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 03 FEB 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** morefirh  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976LONDON01728  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760040-1061  
**From:** LONDON  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760288/aaaaczmv.tel  
**Line Count:** 204  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 LONDON 133, 76 STATE 531  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** morefirh  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 12 MAY 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <12 MAY 2004 by ellisoob>; APPROVED <19 MAY 2004 by morefirh>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** COPPER -- OWNERSHIP OF LME STOCKS  
**TAGS:** EMIN, ETRD, BBAK, UK, LONDON METAL EXCHANGE, LME  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006